

CITY OF RUSSELL  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2005

Peak & Gerdes, LLP  
Certified Public Accountants  
1051 Office Park Road  
West Des Moines, IA 50265

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City of Russell

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert McCurdy	Mayor	January 1, 2008
Dave Atwell	Council Member	January 1, 2006
Carl Moore*	Council Member	January 1, 2006
Jim Neer**	Council Member	January 1, 2006
Loyed Singleton	Council Member	January 1, 2006
Clare Davis	Council Member	January 1, 2008
Raymond Moody	Council Member	January 1, 2008
Ellen Werts	City Clerk/Treasurer	January 1, 2006
Ray Meyer	Attorney	January 1, 2006

\* - Resigned in December, 2004

\*\* - Appointed in February, 2005

City of Russell

PEAK & GERDES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1051 OFFICE PARK ROAD  
WEST DES MOINES, IA 50265

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Russell, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Russell's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities and each major fund of the City of Russell as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2005 on our consideration of the City of Russell's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 19 and 20 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Russell's basic financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP  
Certified Public Accountants

December 2, 2005

## Basic Financial Statements

City of Russell

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2005

Functions / Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 93,820	215	67,775	-
Public works	55,645	1,293	50,861	-
Culture and recreation	27,378	656	-	-
General government	44,845	1,343	-	-
Total governmental activities	221,688	3,507	118,636	-
Business type activities:				
Sewer	96,750	60,933	-	18,232
Water	87,113	71,318	-	-
Garbage and landfill	27,641	26,235	-	-
Total business type activities	211,504	158,486	-	18,232
Total	\$ 433,192	161,993	118,636	18,232

**General Receipts:**

Property tax levied for:  
 General purposes  
 Debt service  
 Local option sales tax  
 Grants and contributions not restricted to specific purpose  
 Unrestricted interest on investments  
 Loan proceeds  
 Miscellaneous  
 Sale of assets  
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:  
 Streets  
 Other purposes  
 Unrestricted

**Total cash basis net assets**

See notes to financial statements.



Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(25,830)	-	(25,830)
(3,491)	-	(3,491)
(26,722)	-	(26,722)
(43,502)	-	(43,502)
(99,545)	-	(99,545)
-	(17,585)	(17,585)
-	(15,795)	(15,795)
-	(1,406)	(1,406)
-	(34,786)	(34,786)
(99,545)	(34,786)	(134,331)
51,918	-	51,918
17,611	-	17,611
39,205	-	39,205
178	-	178
1,483	-	1,483
-	39,899	39,899
7,202	5,515	12,717
3,500	-	3,500
37,742	(37,742)	-
158,839	7,672	166,511
59,294	(27,114)	32,180
63,053	82,918	145,971
\$ 122,347	55,804	178,151
\$ 7,439	-	7,439
90,520	-	90,520
24,388	55,804	80,192
\$ 122,347	55,804	178,151

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2005

	Special Revenue			Total
	General	Road Use Tax	Local Option Sales Tax	
Receipts:				
Property tax	\$ 69,529	-	-	69,529
Other city tax	-	-	39,205	39,205
Licenses and permits	1,343	-	-	1,343
Use of money and property	6,148	-	-	6,148
Intergovernmental	67,953	50,861	-	118,814
Charges for service	1,155	-	-	1,155
Miscellaneous	3,546	-	-	3,546
Total receipts	149,674	50,861	39,205	239,740
Disbursements:				
Operating:				
Public safety	93,820	-	-	93,820
Public works	-	55,645	-	55,645
Culture and recreation	12,605	-	14,773	27,378
General government	44,845	-	-	44,845
Total disbursements	151,270	55,645	14,773	221,688
Excess (deficiency) of receipts over (under) disbursements	(1,596)	(4,784)	24,432	18,052
Other financing sources (uses):				
Sale of capital assets	3,500	-	-	3,500
Operating transfers in	-	-	37,742	37,742
Total other financing sources (uses)	3,500	-	37,742	41,242
Net change in cash balances	1,904	(4,784)	62,174	59,294
Cash balances beginning of year	22,484	12,223	28,346	63,053
Cash balances end of year	\$ 24,388	7,439	90,520	122,347
<b>Cash Basis Fund Balances</b>				
Reserved:				
Debt Service	\$ -	-	-	-
Unreserved:				
General fund	24,388	-	-	24,388
Special revenue funds	-	7,439	90,520	97,959
Total cash basis fund balances	\$ 24,388	7,439	90,520	122,347

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2005

	Sewer	Water	Garbage and Landfill	Total
Operating receipts:				
Charges for service	\$ 60,933	71,318	26,235	158,486
Total operating receipts	60,933	71,318	26,235	158,486
Operating disbursements:				
Business type activities	72,616	87,113	27,641	187,370
Total operating disbursements	72,616	87,113	27,641	187,370
Excess (deficiency) of operating receipts over (under) operating disbursements	(11,683)	(15,795)	(1,406)	(28,884)
Non-operating receipts (disbursements):				
Intergovernmental	18,232	-	-	18,232
Loan proceeds	39,899	-	-	39,899
Miscellaneous	5,515	-	-	5,515
Debt service	(24,134)	-	-	(24,134)
Total non-operating receipts (disbursements)	39,512	-	-	39,512
Excess (deficiency) of receipts over (under) disbursements	27,829	(15,795)	(1,406)	10,628
Other financing sources (uses):				
Operating transfers(out)	(37,742)	-	-	(37,742)
Net change in cash balances	(9,913)	(15,795)	(1,406)	(27,114)
Cash balances beginning of year	51,074	28,417	3,427	82,918
Cash balances end of year	\$ 41,161	12,622	2,021	55,804
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	-	-	-
Unreserved	41,161	12,622	2,021	55,804
Total cash basis fund balances	\$ 41,161	12,622	2,021	55,804

See notes to financial statements.

City of Russell

Notes to Financial Statements

June 30, 2005

(1) **Summary of Significant Accounting Policies**

The City of Russell is a political subdivision of the State of Iowa located in Lucas County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, and general governmental services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Russell has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Area XV Regional Planning Commission and the Lucas County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax is used to account for the road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the local sales tax monies received and the related disbursements from this fund.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Water Fund accounts for the operation and maintenance of the City's water system.

The Garbage and Landfill Fund accounts for the operation and maintenance of the City's solid waste program.

#### C. Measurement Focus and Basis of Accounting

The City of Russell maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety, culture and recreation and business type activities functions.

(2) **Cash and Pooled Investments**

Because the City's depository resolution did not document a deposit amount, it is unclear if the City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the Sate Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 3.

The City had no investment policy, even though one is required per the Code of Iowa.

(3) **Notes and Loans Payable**

Annual debt service requirements to maturity for revenue notes are as follows:

Year Ending June 30,	Revenue Notes	
	Principal	Interest
2006	\$ 16,209	\$ 10,214
2007	16,346	11,569
2008	17,488	11,037
2009	17,636	10,468
2010	17,791	9,894
2011-2015	100,512	40,223
2016-2020	110,032	22,749
2021-2025	83,000	6,330
Total	<u>\$ 379,014</u>	<u>\$ 122,484</u>

See Schedule 1 on page 22 for the detail issues which make up the above principal totals.

Revenue Notes:

Fire Department Revenue Note

The resolutions providing for the issuance of the fire department revenue note include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

- (b) Sufficient monthly transfers shall be made to the fire department revenue note sinking account for the purpose of making the note principle and interest payments when due. The City has not established a sinking account at June 30, 2005.
- (c) The charges to customers for the services of the system shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the system and for the payment of principal and interest on the revenue notes.

#### Sewer Revenue Capital Loan Note

On October 10, 2003, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank, N.A. for the issuance of \$350,000 of sewer revenue capital loan notes with interest at 3.00% per annum. The agreement also requires the City to annually pay .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal wastewater system. The City received disbursements from the Trustee upon request to reimburse the City for the costs as they were incurred. Since the project cost less than the original bond amount, the bond amount was amended accordingly to \$334,000. An initiation fee of 1% of the authorized borrowing for the sewer revenue capital loan notes was charged by Wells Fargo Bank, N.A. The total initiation fee was withheld by the bank from the first proceeds of the sewer revenue capital loan notes drawn by the City during the year ended June 30, 2004.

The resolution providing for the issuance of the sewer revenue capital loan notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment of principal due shall be made to a sewer revenue note and interest sinking account. The City has not established a sinking account at June 30, 2005.
- (c) All finds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the wastewater system, may be used to pay or redeem any notes and then can be used for any lawful purpose.

#### Loan Payable – Lucas County

The City is indebted to Lucas County in the amount of \$28,830. One loan payable is due in ten annual installments of \$1,500, and the other loan payable is due in ten annual installments of \$1,533. No interest is charged on these loans.

Future principle requirements of the loans payable are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2006	\$ 3,033
2007	3,033
2008	3,033
2009	3,033
2010	3,033
2011-2015	13,665
Total	<u>\$ 28,830</u>

**(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2005 was \$5,349, equal to the required contributions for the year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, and sick leave hours for subsequent use. These accumulations are not recognized as disbursements by the City until used or paid. At June 30, 2005, the City had no liability for compensated absences payable.

**(6) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2005, disbursements in the Public Safety, Culture and Recreation, and Business Type activities functions exceeded the amounts budgeted.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer To	Transfer From	Amount
Special Revenue:	Enterprise:	
Local Option Sales Tax	Sewer	\$ 37,742

The above transfer represents a payback of an interfund loan.

**(8) Related Party Transactions**

The City had business transactions between the City and City officials, totaling \$20,800 during the year ended June 30, 2005.

**(9) Risk Management**

The City of Russell is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



**(10) Commitments**

The City of Russell purchases all its water for resale from Rathbun Regional Water Association, Inc.

The City signed an agreement with a vendor which provides water tower services to the City at a contracted amount of \$14,469 per year for the next two years.

**(11) Subsequent Events**

In fiscal year 2006, the City paid \$45,000 for street repair. The City used funds from the Local Option Sales Tax Fund for the project.

## Required Supplementary Information

City of Russell

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
Receipts:						
Property tax	\$ 69,529	-	69,529	49,647	49,647	19,882
Other city tax	39,205	-	39,205	47,436	47,436	(8,231)
Licenses and permits	1,343	-	1,343	1,000	1,000	343
Use of money and property	6,148	-	6,148	200	200	5,948
Intergovernmental	118,814	18,232	137,046	69,975	114,975	22,071
Charge for service	1,155	158,486	159,641	152,000	152,000	7,641
Miscellaneous	3,546	5,515	9,061	-	-	9,061
Total receipts	239,740	182,233	421,973	320,258	365,258	56,715
Disbursements:						
Public safety	93,820	-	93,820	46,175	91,175	(2,645)
Public works	55,645	-	55,645	86,500	86,500	30,855
Culture and recreation	27,378	-	27,378	26,700	26,700	(678)
General government	44,845	-	44,845	56,400	56,400	11,555
Business type activities	-	211,504	211,504	127,000	182,000	(29,504)
Total disbursements	221,688	211,504	433,192	342,775	442,775	9,583
Excess (deficiency) of receipts over (under) disbursements	18,052	(29,271)	(11,219)	(22,517)	(77,517)	66,298
Other financing sources, net	41,242	2,157	43,399	-	63,600	(20,201)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	59,294	(27,114)	32,180	(22,517)	(13,917)	46,097
Balances beginning of year	63,053	82,918	145,971	115,020	115,020	30,951
Balances end of year	\$ 122,347	55,804	178,151	92,503	101,103	77,048

See accompanying independent auditor's report.

City of Russell

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$100,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety, culture and recreation and business type activities functions.

## Other Supplementary Information

City of Russell

Schedule 1

Schedule of Indebtedness

Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
Revenue Notes -									
Fire Department Revenue Note	September 26, 2003	4.25%	\$ 62,000	58,014	-	-	58,014	-	-
Sewer Revenue Capital Loan Note	October 10, 2003	3.00%	350,000	294,101	39,899	13,000	321,000	10,259	-
				<u>\$ 352,115</u>	<u>39,899</u>	<u>13,000</u>	<u>379,014</u>	<u>10,259</u>	<u>-</u>
Loan Agreement -									
Lucas County	July 1, 2004	-	\$ 15,000	15,000	-	1,500	13,500	-	-
Lucas County	July 1, 2005	-	15,330	-	15,330	-	15,330	-	-
				<u>\$ 15,000</u>	<u>15,330</u>	<u>1,500</u>	<u>28,830</u>	<u>-</u>	<u>-</u>

See accompanying independent auditor's report.

## City of Russell

## Schedule 2

## Note Maturities

June 30, 2005

Revenue Notes					
Year Ending June 30,	Fire Department Revenue Note		Sewer Revenue Capital Loan Note		
	Issued September 26, 2003		Issued October 10, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Total
2006	4.25%	\$ 3,209	3.00%	\$ 13,000	\$ 16,209
2007	4.25%	3,346	3.00%	13,000	16,346
2008	4.25%	3,488	3.00%	14,000	17,488
2009	4.25%	3,636	3.00%	14,000	17,636
2010	4.25%	3,791	3.00%	14,000	17,791
2011-2015	4.25%	21,512	3.00%	79,000	100,512
2016-2020	4.25%	19,032	3.00%	91,000	110,032
2021-2025	-	-	3.00%	83,000	83,000
		<u>\$ 58,014</u>		<u>\$ 321,000</u>	<u>\$ 379,014</u>

See accompanying independent auditor's report.

## City of Russell

## Schedule 3

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Year

	<u>2005</u>
Receipts:	
Property tax	\$ 69,529
Other city tax	39,205
Licenses and permits	1,343
Use of money and property	6,148
Intergovernmental	118,814
Charges for service	1,155
Miscellaneous	<u>3,546</u>
Total	<u>\$ 239,740</u>
Disbursements:	
Operating:	
Public safety	\$ 93,820
Public works	55,645
Culture and recreation	27,378
General government	<u>44,845</u>
Total	<u>\$ 221,688</u>

See accompanying independent auditor's report.



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing  
Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Russell, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 2, 2005. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Russell's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Russell's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-05, I-B-05, I-C-05, I-D-05, and I-H-05 are material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Russell's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Russell and other parties to whom the City of Russell may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Russell during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP  
Certified Public Accountants

December 2, 2005

City of Russell

Schedule of Findings

Year ended June 30, 2005

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

- I-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- I-B-05 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits. The City was unable to generate a delinquent list of utility billings receivable as of June 30, 2005.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will review this area.

Conclusion - Response accepted.

- I-C-05 Debt Service – The City had a debt service levy in fiscal year 2005. However, the City has never had any disbursements which could be paid from the debt service fund.

Recommendation – The City consult with legal counsel to determine the proper disposition of this matter.

Response – We will contact our attorney in relation to the issue.

Conclusion - Response accepted.

City of Russell

Schedule of Findings

Year ended June 30, 2005

- I-D-05 Receipts – The City does not issue receipt slips for monies collected. Instances were noted where receipts were not timely deposited to the bank.

Recommendation – The City issue prenumbered receipt slips for all collections received. Receipts should also be deposited more timely, preferably daily.

Response – We will implement this recommendation.

Conclusion - Response accepted.

- I-E-05 Separately Maintained Records – The Volunteer Fire Department maintains separate accounting records for its fundraising activities. The individual transaction activity is not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states in part that a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose. For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the Council on a monthly basis.

Response – We will inform the Fire Department of this requirement.

Conclusion - Response accepted.

- I-F-05 Timesheets – Not all City employees are required to submit timesheets.

Recommendation – Timesheets should be prepared by all personnel. The timesheets should be signed by employees and should be reviewed and signed by the employee's immediate supervisor prior to submission.

Response – We will require timesheets for all employees.

Conclusion - Response accepted.

- I-G-05 Disbursements – Not all pages of the invoices were marked paid, dated and cancelled to prevent reuse.

Recommendation – All pages of the invoices should be maintained for all bills paid and should be marked paid, initialed and dated to cancel.

Response – All pages of the invoices are now marked paid and cancelled.

Conclusion - Response accepted.

City of Russell

Schedule of Findings

Year ended June 30, 2005

I-H-05 Accounting Records – The City does perform bank reconciliations. However, there are no procedures in place to ensure the book (general ledger) receipts and disbursements are accurate. Consequently, the City is unable to determine the completeness and accuracy of the general ledger. Because of these lack of procedures, we noted some receipts which were not recorded on the general ledger, and other receipts incorrectly recorded on the general ledger.

Recommendation – The City implement procedures to ensure the general ledger is accurate, and that the amount on the general ledger reconciles with the book balance on a monthly basis.

Response – We will review this and take action as necessary.

Conclusion - Response accepted.

City of Russell

Schedule of Findings

Year ended June 30, 2005

**Part II: Other Findings Related to Statutory Reporting:**

II-A-05      Official Depositories – A resolution naming official depositories has been approved by the City. However, the deposit resolution did not document the maximum dollar amount which may be kept on deposit.

Recommendation - The City ensure the resolution naming official depositories and the maximum amount that may be kept on deposit, as required by Chapter 12C.2 of the Code of Iowa, are met.

Response - We will implement this recommendation.

Conclusion - Response accepted.

II-B-05      Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the public safety, culture and recreation, and the business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. The property tax amount adopted by the City was approximately \$18,000 more than the property tax amount approved by the Council and published in the newspaper.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, the City should consult with their attorney regarding the difference in the property tax amount as discussed above.

Response – The budget will be amended in the future, if applicable. We will also consult our attorney in relation to the above issue.

Conclusion – Response accepted.

II-C-05      Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05      Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-05      Business Transactions – Business transactions between the City and the City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Jason Pardock, City employee	Garbage Contract	\$20,800

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transactions may represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions exceed \$2,500 during the fiscal year.

City of Russell

Schedule of Findings

Year ended June 30, 2005

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – We will review this with legal counsel.

Conclusion – Response accepted.

II-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-05 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

An instance was noted where the minutes of the Council were not signed by the Clerk or Mayor, even though this is required by Chapter 380.7 of the Code of Iowa. The minutes of the Council were not consistently specific enough to indicate the vote of each member as required by Chapter 21.3 of the Code of Iowa. Local Option Sales Tax and Road Use Tax Fund receipts and disbursements were identified as General Fund receipts and disbursements as published in the newspaper. Some individual claims were not published. Chapter 372.13(6) of the Code of Iowa requires a list of all claims allowed, total disbursements from each fund and a summary of all receipts be published within 15 days of the Council meeting.

Recommendation – The City should implement procedures to ensure the minutes are signed and are specific enough to indicate the vote of each member. In addition, a list of all claims allowed, total disbursements from each fund, and a summary of all receipts should be published in the newspaper.

Response - We will implement the recommendations.

Conclusion - Response accepted.

II-H-05 Deposits and Investments – As noted at II-A-05 an instance of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy was noted. The City has not adopted an investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt an investment policy to comply with the Code of Iowa.

Response - We will adopt an investment policy to comply with Chapter 12B of the Code of Iowa.

Conclusion - Response accepted.

II-I-05 Revenue Notes – For the Fire Department Revenue Note and the Sewer Revenue Capital Loan Note, the City has not established sinking accounts as required.

Recommendation – The City establish the above accounts as required by the Note agreements.

Response - We will implement this recommendation.

Conclusion - Response accepted.

City of Russell

Schedule of Findings

Year ended June 30, 2005

- II-J-05      Annual Reports – The beginning and ending balances and the receipts recorded on the City’s annual report, as required by Chapter 384.22 of the Code of Iowa, do not agree to the City’s accounting records. In addition, one debt issue was not recorded on the City’s annual report. The Street Finance Report submitted to the Department of Transportation was inaccurate.
- Recommendation – The City implement procedures to ensure the City’s annual report agrees to the City’s accounting records, and that the Street Finance Report is accurate.
- Response - We will make corrections next year to bring everything into balance.
- Conclusion - Response accepted.
- II-K-05      Required Special Revenue Fund – The City did not maintain separate Special Revenue Funds to account for the debt service and employee benefits property tax levies as required by Chapters 384.4 and 384.6, respectively, of the Code of Iowa and the rules adopted by the City Finance Committee in accordance with Chapter 384.13 of the Code of Iowa. The City also did not establish a separate Special Revenue Fund to account for the collection of water meter deposits. This activity was accounted for in the Water Fund.
- Recommendation – The City should establish separate Special Revenue Funds for Debt Service, Employee Benefits and Water Meter Deposits to properly account for special requirements of each of these sources of funds.
- Response – We will establish these funds.
- Conclusion – Response accepted.
- II-L-05      Uniform Chart of Accounts – The City’s accounting system does not use the Uniform Chart of Accounts for City Governments in Iowa.
- Recommendation – The City should establish an accounting system that uses the uniform chart of accounts to properly and efficiently identify transactions of the City for reporting and budgeting purposes.
- Response – We will begin using the chart of accounts as soon as possible.
- Conclusion – Response accepted.
- II-M-05      Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.
- Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.
- Response – We plan to do this immediately.
- Conclusion – Response accepted.



City of Russell

Schedule of Findings

Year ended June 30, 2005

- II-N-05      County Agreement – Lucas County did some road maintenance work inside the City limits. The County and the City informally agreed that the value of this work would be paid by the City to the County in equal installments over the next ten years. In effect, this is a loan incurred by the City. Chapters 384.24, 384.25, and 362.3 of the Code of Iowa documents the guidelines that must be followed prior to borrowing funds on behalf of the City. These Code sections state that a notice of proposed action for the issuance of debt be published between four and twenty days prior to the public hearing. Our review noted that for this loan, the notice of proposed action was not published and the public hearing was not held.
- Recommendation – The City should consult with the Attorney regarding these issues. The City should also implement procedures to ensure the procurement of future debt on behalf of the City is in compliance with the requirements of the Code of Iowa.
- Response – In the future, we will implement this recommendation.
- Conclusion – Response accepted.
- II-O-05      Compliance Issues – The City Code of Ordinances have not been updated since 1980. Chapter 380.8 of the Code of Iowa requires that the Code of Ordinances be compiled at least once every five years. The amount paid to the Mayor and City Council as compensation is more than the amount as noted in the City Code of Ordinances. A private party has a contract with the City to haul all the residential garbage in the City. However, the contract with the private party does not require that they provide proof of insurance to the City.
- Recommendation – The City compile the Code of Ordinances as required by the Code of Iowa. In addition, the Mayor and the City Council should be paid according to City Ordinance. Also, the contract for residential garbage collection should require the garbage hauler to have a specific amount of insurance.
- Response – We will implement the above to the best of our ability.
- Conclusion – Response accepted.
- II-P-05      Disbursements – Instances were noted where invoices were not obtained prior to the payment of the claim. As of June 30, 2005, it appears the City overpaid the bank \$1,881 in relation to the Sewer Revenue Capital Loan Note.
- Recommendation – The City obtain invoices prior to the payment of all claims. In addition, the City should review the payments to the bank and ensure that the proper amount is paid.
- Response – We will implement the above recommendations.
- Conclusion – Response accepted.

City of Russell

Schedule of Findings

Year ended June 30, 2005

- II-Q-05      Payroll – A W2 was issued to an employee at an incorrect amount. Form I-9's were not used. Compensatory time was earned at straight time instead of time-and-one half. An instance was noted where there was no written authorization for the pay rate of an employee.
- Recommendation – The City issue W2 forms at the correct amount, and require that all employees complete I-9 forms. In addition, compensatory time should be earned at time-and-one half for hours worked in excess of 40 hours per week, and written authorization should be obtained for all employee rates of pay.
- Response – We will implement the above recommendations.
- Conclusion – Response accepted.
- II-R-05      Utility Procedures – Sales taxes are not charged on commercial sewer. No ordinance could be found establishing the garbage and landfill rate, and the 10% penalty on the delinquent garbage and landfill payments. During the fiscal year, the City did not turn over any delinquent utility accounts to a collection agency or to the County Treasurer for collection.
- Recommendation – The City assess and collect sales taxes on commercial sewer bills as required by the Code of Iowa. In addition, the City should draft an ordinance establishing the landfill and garbage rate and the related penalty amounts. Also, the City should consider turning over delinquent utility accounts to a collection agency or to the County Treasurer for the collection.
- Response – We will review the above and take action as necessary.
- Conclusion – Response accepted.
- II-S-05      Grant – The City received \$42,120 from the Federal Emergency Management Agency to purchase fire department equipment. Federal regulations require procedures be in place to ensure minimal time elapses between receipt of the federal funds and the related disbursement. For part of this grant, two months elapsed between date of receipt of the grant and the related disbursement.
- Recommendation – The City implement procedures to ensure grant monies are spent in a time frame in accordance with federal requirements.
- Response – We will attempt to implement this recommendation.
- Conclusion – Response accepted.